# Credit

## Chapter 32 Sec 2

# Ch 32 Sec 2 Credit

What you'll learn . . .

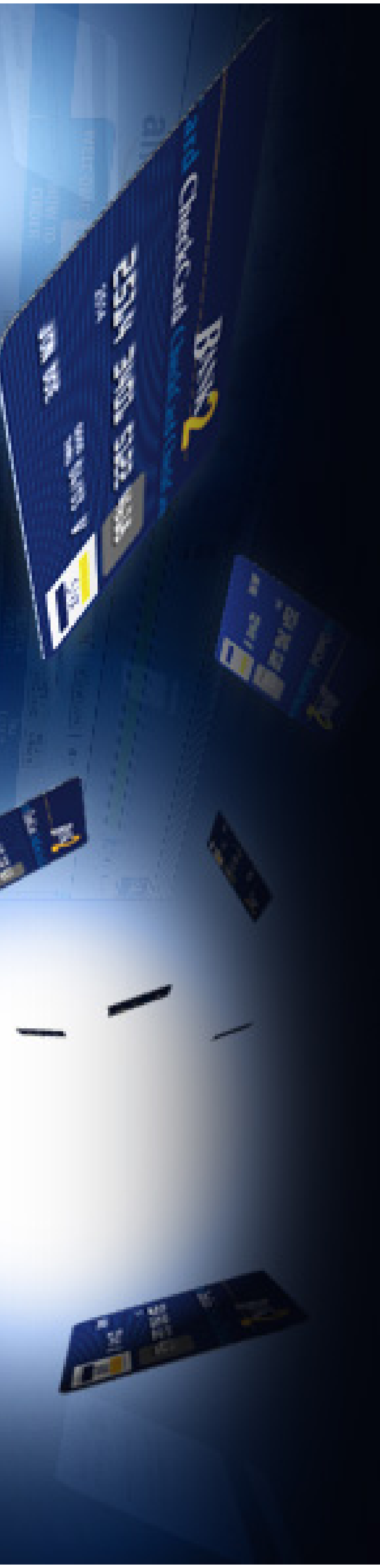
- The importance of credit
- The five sources of consumer credit
- The four types of credit accounts extended to consumers
- How businesses use trade credit
- The most important credit legislation

# Credit and Its Importance

- Credit allows businesses or individuals to obtain products or money in exchange for a promise to pay later
- The use of credit is essential in our economy

# Consumer Credit

- Companies who offer credit to consumers, such as banks, department stores, and oil companies, typically issue credit cards.
- Cards are issued with a *credit limit* based upon customers' ability to pay and their payment history.



# Bank Credit Cards

- Issued by banks and their subsidiaries
- VISA, MasterCard, and Discover sponsor bank credit cards but do not issue them directly
- An annual fee (a percentage of credit sales to the company collecting the money from the customer) may be charged
- After the card sales are processed, the bank bills the customer

# Store and Gasoline Credit Cards

- Known as proprietary cards
- Usually do not have an annual fee but have very high interest rates
- The individual company handles the processing and billing

# Travel and Entertainment Cards

- American Express, Discover, and Diners Club
- These companies may require payments to be made in full each month
- They may charge a higher service fee to retailers so some businesses may not accept these cards

# Rebate Cards

- Offer some type of reward or incentive to use them
- Frequently co-branded and offer rewards in cash or airline miles
- Some use the card for convenience, pay the balance every month, then earn the reward

# Affinity Cards

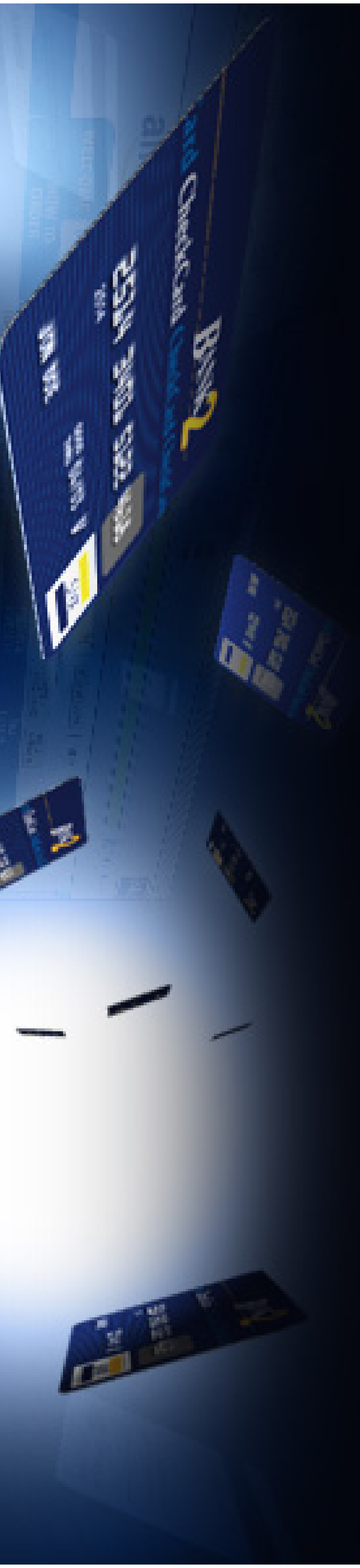
- Issued by banks to show your loyalties to a particular sports team, university, charity, or other organization
- The issuer gives a small percentage (less than 1%) of the interest toward the organization

# Debit Cards

- Look like credit cards
- Allow funds to be withdrawn directly from a checking account and applied to the place of purchase.

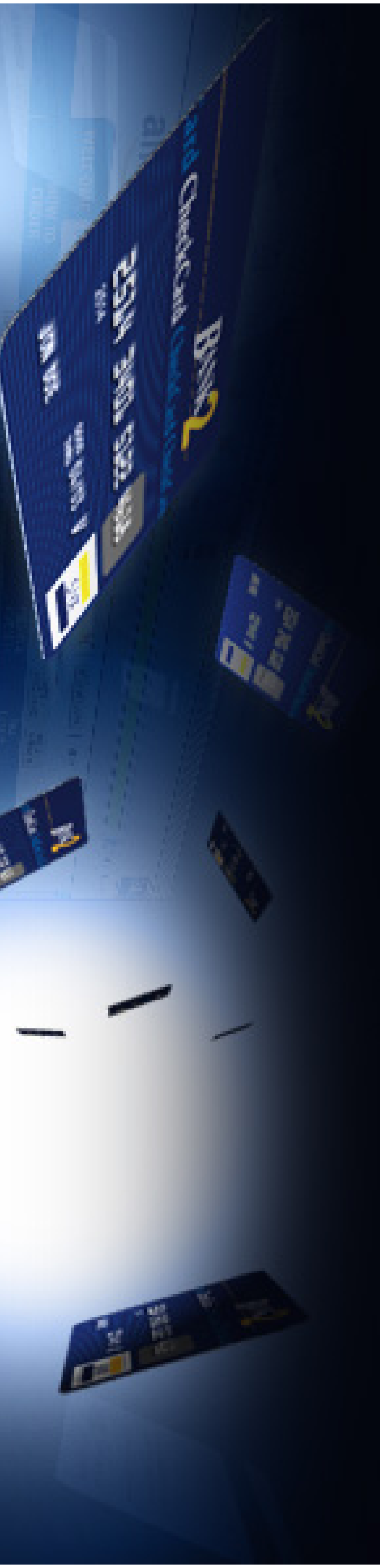
# Secured and Unsecured Loans

- Loans are also a form of credit
- In secured loans, something of value, such as property, motor vehicles, machinery, or merchandise is pledged as collateral, or security.
- Unsecured loans do not require any security; they rely on the excellent credit reputation of the borrower.



# Types of Accounts

- **Regular charge accounts** allow customers to charge, then pay the balance in full within 30 days
- **Installment accounts** allow for payment over a period of time
- **Revolving accounts** – the minimum payment is usually a certain percentage on the balance owed or a minimum dollar amount, such as $15.
- **Budget accounts** allow for payment over a certain time period without a finance charge
  – Example: interest-free for 90 days

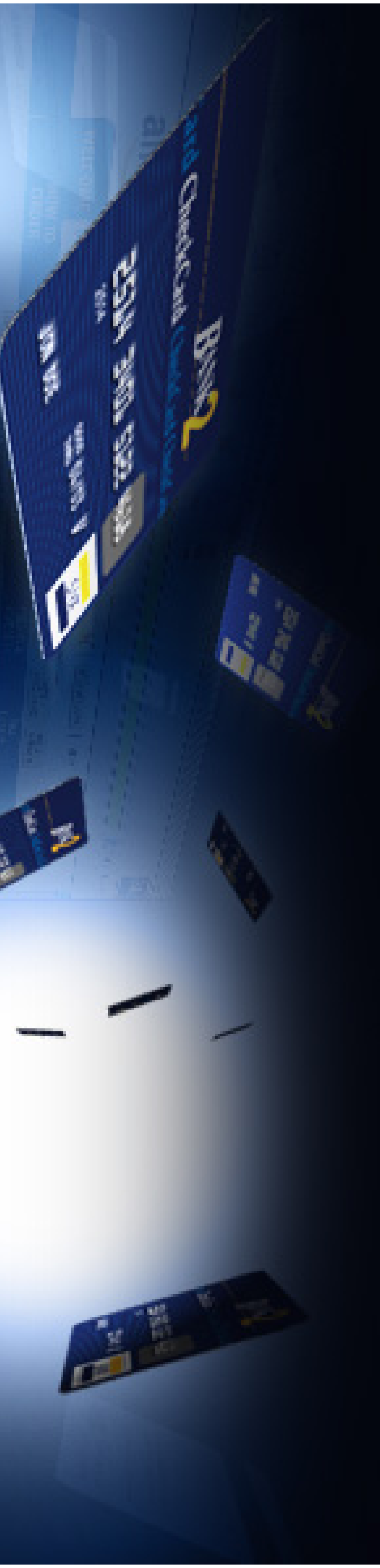


# Business Credit

- Similar to consumer credit but does not involve the use of credit cards
- Cash discounts are frequently offered to businesses that promptly pay their bills

# Legislation Affecting Credit

- Truth in Lending Act of 1968– requires lenders to disclose annual percentage rates and the amount financed
- Fair Credit Reporting Act of 1971 – requires that a lender report the name and address of the credit bureau used to deny credit. Also gives consumers the opportunity to check their credit histories for errors



# Legislation Affecting Credit

- The Equal Credit Opportunity Acts of 1975 and 1977 – set guidelines for review of applications for credit and prohibit discrimination based upon age, gender race, religion, or marital status
- The Fair Debt Collection Act of 1980 -- prevents businesses from harassing or abusing bad-debt customers
- The Credit and Charge Card Disclosure Act of 1988 – requires card issuers to provide information about card costs.